

Healthcare Reform & the Impact on HSAs

by Cora M. Tellez

Recently I had the opportunity to meet with many brokers in California as I traveled to San Francisco, Sacramento, and Los Angeles with my colleague and friend, Roy Ramthun. Roy is President of HSA Consulting Services and has decades of experience in health policy, government relations, and private sector operations. He led the U.S. Treasury Department's implementation of HSAs from inception in 2003. He then became the senior health policy advisor to President Bush.

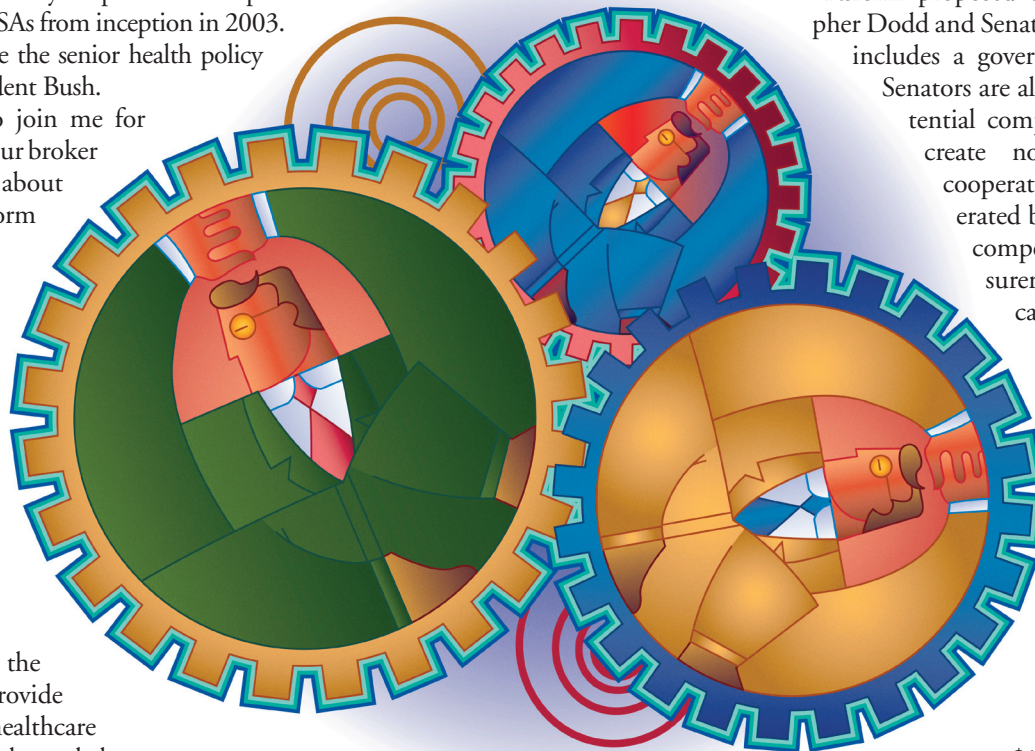
I asked Roy to join me for meetings with our broker partners to talk about healthcare reform.

We shared our collective perspective and listened to what concerns brokers about possible changes on the horizon. This article is an opportunity to broaden the audience and provide a summary of healthcare reform proposals and how new policies might affect the HSA market. I credit Roy with much of the content. Even as I write this, Congressional winds will change some of what follows by the time this article is published. This is perhaps one of the most significant proposed reforms of our time and will likely be debated for months despite President Obama's desire to expedite change.

President Obama wants Congress to send him a sweeping overhaul of the \$2.5 trillion U.S. healthcare system by October 2009. The President sees this as a way to help put the struggling economy on a path of growth. Almost daily it seems there is a new plan being proposed and countered on Capitol Hill.

Considerations in the Senate for Reforming Healthcare

There is broad agreement in the Senate on the need to promote disease prevention and reward hospitals and doctors for providing better quality of care rather than quantity of services. Those changes would be driven



through the government's Medicare health insurance program for people 65 and older and the disabled. There is also broad agreement for maintaining employer-provided healthcare. For those without employer-provided insurance, the proposed legislation would set up an insurance exchange – a clearinghouse – in which individuals and small businesses could shop for medical plans and compare benefits and prices.

A major sticking point is whether a new government-run insurance plan should compete with private insurers in the exchange. Republicans say they cannot support legislation that includes a new public

plan, arguing it would drive private insurers out of business and lead to a government-run healthcare system. Many Democrats insist on a new public plan, arguing that it can be set up to compete fairly with private insurers and that it is the only way to keep premiums low. President Obama also wants a new government-run program as an option for people to select.

Reform proposed by Senator Christopher Dodd and Senator Edward Kennedy includes a government health plan.

Senators are also considering a potential compromise that would create non-profit insurance cooperatives, owned and operated by their members, to compete with private insurers to provide healthcare coverage to individuals and small businesses.

The Senate Finance Committee's health reform proposal was revised just as this article is being written after the Committee learned that the original proposal would cost \$1.6 trillion. Subsidies

for the poor dropped, Medicaid eligibility was tightened, and employer mandates were revised, but still included is an "exchange" where employees would buy healthcare insurance outside the traditional employer-sponsored market.

In the House: Other Healthcare Plans are on the Table

Three House committees – Ways and Means, Energy and Commerce, and Education and Labor – are working on legislation as well. The chairmen of these committees released their draft proposal for healthcare in mid-June. The original bill was over 800 pages long, but did not in-

clude any “revenue provisions” saying that would be supplied later. Since provisions affecting HSAs and HRAs would be part of these provisions, at this writing we don’t know whether the House bill will have any impact on consumer-driven plans. Potential targets for higher taxes to pay for the plan range from wealthy Americans and the nation’s employers to anyone who consumes soft drinks or alcohol. Also under consideration are increases to the Medicare payroll tax and a value-added tax (like a national sales tax) of 1.5% or more. The list of options being weighed by the Ways and Means Committee aims to raise approximately \$600 billion over 10 years to pay for reform.

The draft bill would require all individuals to get health insurance and force employers to offer healthcare to their workers, with exemptions for small businesses. A new public health insurance plan would compete with private companies within a new healthcare purchasing “exchange” where Americans could shop for coverage. Government subsidies would help the poor buy care. If lawmakers stay on schedule, the bills would be melded into one piece of legislation that would go to the House floor before the August recess.

The House bill is unlikely to win backing from Republicans and is expected to include a public plan option that is more to the liking of liberal Democrats. But a sizable group of conservative Democrats – the so-called “Blue Dogs” – are cool to the idea and have thrown their weight behind a trigger that would put a public plan into effect in the future should the private sector fail to meet price and competition targets.

What Would Reform Mean for Health Savings Accounts?

It is difficult to predict how healthcare policy change will affect HSAs until we have a clearer picture of which of these proposed plans will take center stage as the Congressional debates begin. However, we believe that HSAs will continue to be part of healthcare reform with some possible changes. We know that some lawmakers want whatever bill is passed to include some constraints on HSAs, such as limiting the amount of the annual contribution made to an HSA by individuals and families to the amount of the HDHP deductible. While this would impact the tax advantaged sav-

ings rate that consumers can enjoy with a HSA today, the change reverts to the initial guidelines set by the IRS when HSAs were established in 2004. Despite this possible revision, we would expect HSA adoption to continue increasing.

In addition, some lawmakers are proposing higher penalties (20%) if HSA funds are used for non-qualified expenses and they want to require employers and HSA accountholders to substantiate the usage of funds for qualified medical expenses.

Despite these proposed changes, the fundamental benefits of HSAs would still be intact – the opportunity for consumers to save for medical expenses and fund their needs today and in the future. HSAs meet all of the eight principles for reform outlined by President Obama in his mandate to Congress:

- Protect families’ financial health.
- Make health coverage affordable.
- Aim for universality.
- Provide portability of coverage.
- Guarantee choice.
- Invest in prevention and wellness.
- Improve patient safety and quality care.
- Maintain long-term fiscal sustainability.

What Do Consumers Want?

According to a Kaiser Family Foundation study conducted in April 2009, more than 90% of Americans with health coverage believe their plan is good or adequate. Many consumers are now voicing concerns that a government-run health plan would cause them to lose the coverage they have today and prefer to keep. The same survey indicated that 34% of the uninsured would not be willing to pay \$100 per month to buy health insurance and 67% would not be willing to pay \$200 per month. Government mandates will not likely change their minds. Finally, 67% of those surveyed favor creating a public option similar to Medicare. When told that public plans would be the first step toward single-payer, government run health care, support drops to 41%. It drops to 32% when told that the government could have an unfair advantage over private plans.

Despite the uncertainty of reform, we continue to see an increase in employer adoption of HSAs. The poor economy and the affordability of HSA-compatible plans have clearly affected employer decision-making. Consistent with other pub-

lic reports, we see in-group growth year-over-year when employers install HSA plans. We’re also noticing that adoption spans every industry classification, every size group, private companies as well as municipalities and non-profit organizations, and more Taft Hartley groups, suggesting that HSA appeal is broad and widespread.

Furthermore, HSAs are appealing to a younger, less affluent demographic that was previously uninsured. We have seen the average age of our accountholders drop from 52 in 2004 when HSAs were introduced to 41 today. Assurant recently reported that 40% of those buying HDHPs and opening HSAs indicated that they did not previously have health insurance coverage. AHIP reported similar numbers with 37% of HSA policies being sold to previously uninsured consumers.

Health savings accounts are effective tools in conserving assets and paying (with federal tax-free money) qualified medical expenses during difficult times. Now more than ever, we advise employers and their brokers to consider HSA qualified plans, primarily because the economics of paying lower insurance premiums and adding an important savings plan can be compelling.

What Can You Do?

Write to your Congressional representatives in the Senate and House and voice your opinion. Let them know your views about healthcare reform, what it should include and exclude. If you need further information about the evolution of policy changes, we encourage you to contact Roy Ramthun at roy@hsaconsultingservices.com or contact Sterling HSA at www.sterlinghsa.com. We will provide ongoing updates to brokers as healthcare reform unfolds. □

Cora M. Tellez, CEO of Sterling HSA, is a 30-year veteran in healthcare finance and delivery. Prior to founding Sterling HSA in 2004, Tellez was president of the health plans division of Health Net Inc., an insurance provider that operated in seven states and achieved revenue of \$8 billion from health plans. She has also served as president of Prudential’s western health care operations, CEO of Blue Shield of California, Bay Region and regional manager for Kaiser Permanente of Hawaii. For more information, visit www.sterlinghsa.com.